

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Costing Treatment of Retirement Debt Relief

Docket No. RM2023-1

Periodic Reporting (Proposal Eight)(Retiree Health
Benefit Normal Costs)

Docket No. RM2023-3

COMMENTS OF THE PACKAGE SHIPPERS ASSOCIATION
(January 4, 2023)

Pursuant to Order No. 6382, the Package Shippers Association (PSA) submits these comments in support of the Mailer Comments addressing the regulatory costing treatment of FY 2022 retiree health benefit (RHB) normal costs (the present value of future RHB benefits earned by current employees during the fiscal year).¹ PSA agrees that FY 2022 RHB normal costs should be accrued and then attributed and distributed to specific products in the same proportions as direct labor costs. This “piggyback” approach is the same method that has been used for these costs since the enactment of the Postal Accountability and Enhancement Act of 2006 (PAEA).²

No party disputes that the Postal Service Reform Act of 2022 (PSRA) changed when the Postal Service must make RHB payments.³ Section 102 of the PSRA does not, however, address cost accrual principles generally or the causality-based cost attribution requirements underlying the Commission’s prevailing regulatory treatment of RHB normal costs. The Postal Service’s proposal to exclude RHB normal costs from the Cost and Revenue Analysis and Annual Compliance Report must therefore be rejected as inconsistent with the Postal Service’s

¹ See Order No. 6382 (Dec. 21, 2022); Motion for Reconsideration or, in the Alternative, Petition to Initiate a Proceeding regarding the Appropriate Analytical Principle for Retiree Health Benefit Normal Costs (Dec. 19, 2022)(Mailer Comments).

² See Pub. L. No. 109-435, 120 Stat. 3198 (Dec. 20, 2006)

³ See Pub. L. 117-108, 136 Stat. 1146 (Apr. 6, 2022).

own financial reporting and the causation-based costing requirements of 39 U.S.C. §§ 3622 and 3633.

The Postal Service has previously acknowledged that the PAEA severed “any perceived link between the payment schedule and how the costs are incurred,” stating:

Before, attribution was based upon the payment schedules for these costs. While it was recognized that actual payments were not the same as the costs incurred, payments were used as the best available measure of the costs incurred.

As such, attributing those pension and health costs based upon the payment schedule, as done in the past, is clearly inconsistent with reflecting the “economic costs” associated with the handling of the mail, due to the accelerated payments and the new information on actual costs incurred.

The more practical, moderate approach focuses on how those costs are earned as opposed to the payment schedule. For instance, in any given year, postal employees covered by the CSRS are earning retirement payments. Also, employees accrue eligibility for health care coverage after retirement. These earned benefits form the foundation of economic costs. In other words, the salary and the earned benefits are the true costs incurred by the Postal Service when postal employees are working. Those earned benefits can be measured using recognized actuarial cost methods and assumptions. The same rules of attribution used for the salary can also be used for benefits. Therefore, recognized actuarial cost methods can be put in place to measure and then attribute these retirement-related costs.⁴

Accordingly, RHB normal costs have been accrued and attributed as a piggyback on direct labor costs in the year in which they were incurred since the enactment of the PAEA. Nothing in the PSRA compels a change in this approach.

The PSRA’s change in the payment schedule alone is not a sufficient reason to change this established practice. As noted in the Mailer Comments, prior statutory changes to the postretirement health benefit cost payment schedules did not affect the treatment of RHB normal costs, the Postal Service accrued the benefits earned and the associated costs incurred in the year the Postal Service employees were working. For example, when in FY 2011 the \$5.5 billion payment was deferred to FY2012, USPS still accrued the entire RHB normal cost and

⁴ Docket No. RM2007-1, Initial Comments of the United States Postal Service On The Second Advance Notice of Proposed Rulemaking (June 18, 2007), at 29.

attributed it as a piggyback on direct labor costs in FY 2011. The FY 2011 Summary

Descriptions stated in part:

The basis for determining the amount of current-year costs is to identify the benefits earned during the fiscal year by current employees. Under a new element of PAEA pertaining to retiree health benefits, OPM will determine the amount of the new obligations incurred each year (39 U.S.C. §8908a[d][1])[sic]. The yearly increase in obligations is the change in the net present value of the future retiree health benefits payments during the year. It is the value of the retiree health benefits earned by current employees during the year. While it will not be paid to current employees until they retire, it is part of the compensation to employees, just like salaries and currently paid benefits. OPM's estimate of the present value of the additional obligation taken on during FY 2008 for future payment of retiree health benefit is \$3.389 billion, as will be reported in the Postal Service Annual Report, page 37, shown as Normal Cost.⁵

This approach of accruing and attributing RHB normal costs is the only approach that complies with the statutory causation-based costing requirements.

PSA has consistently recognized the importance of the statutory causation-based costing requirements codified in the PAEA.⁶ Just as the statute forbids the attribution of costs to any product (market dominant or competitive) without the showing of a reliably identified causal relationship between the cost and the product, the statute likewise requires that costs with a reliably identified causal relationship to a specific product be attributed to that product.

In FY 2021, 58.4 percent of the RHB normal costs (\$2.5 billion of \$4.2 billion of total normal costs) were attributed to specific products consistent with the attribution of direct labor.⁷ Similar percentages of RHB normal costs were attributable in prior years back to FY2008.⁸ FY 2022 RHB normal costs as reported by the Postal Service in its 10-K⁹ are no less *caused* by products than FY 2021 RHB normal costs because no provision of PSRA affects this causality.

⁵ Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2011 (July 2, 2012), CS18-11.DOC at 18-8.

⁶ See Docket No. RM2016-2, Comments of Market Dominant Mailers (Jan. 25, 2016).

⁷ See Mailer Comments, Attachment 1.

⁸ See *id.*

⁹ United States Postal Service, 2022 Report on Form 10-K, at 32.

The existing statutory costing requirements do not permit the Postal Service to categorically exclude costs causally related to products.

For the reasons stated above, PSA respectfully urges the Commission to require RHB normal costs to be accrued and attributed in the fiscal year in which they are earned, using the same method that has been used since FY 2008, as detailed in the FY 2021 Summary Descriptions.¹⁰

Respectfully Submitted,

/s/

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¹⁰ See Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2021 (July 1, 2022), CS18-21.docx at 18-19.